

Pennington's

1973 ANNUAL REPORT
PENNINGTON'S STORES LIMITED



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FINANCIAL HIGHLIGHTS

	December 29, 1973	Change %	December 30, 1972
Sales	\$15,215,566	+28.1	\$11,879,984
Income after taxes	1,479,937	+22.1	1,211,236
Earnings per share	73.1¢	+21.4	60.2¢
Working capital	2,948,387	+ 6.7	2,762,919
Working capital ratio	2.49 : 1		2.69 : 1
Dividends	566,902	+40.1	404,360
Dividends per share	28¢	+40.0	20¢
Number of stores	47	+30.5	36

Board of Directors

Sol Armel
 Donald Carr, Q.C.
 William Drevnig
 Albert Sherman
 Jack Sherman
 Mark Vansittart

Officers

William Drevnig, *President*
 Albert Sherman, *Vice-President and
Secretary*
 Sol Armel, *Vice-President and Treasurer*
 Jack Sherman, *Vice-President*

Transfer Agent & Registrar

The Canada Trust Company

Auditors

Laventhal Krekstein Horwath & Horwath

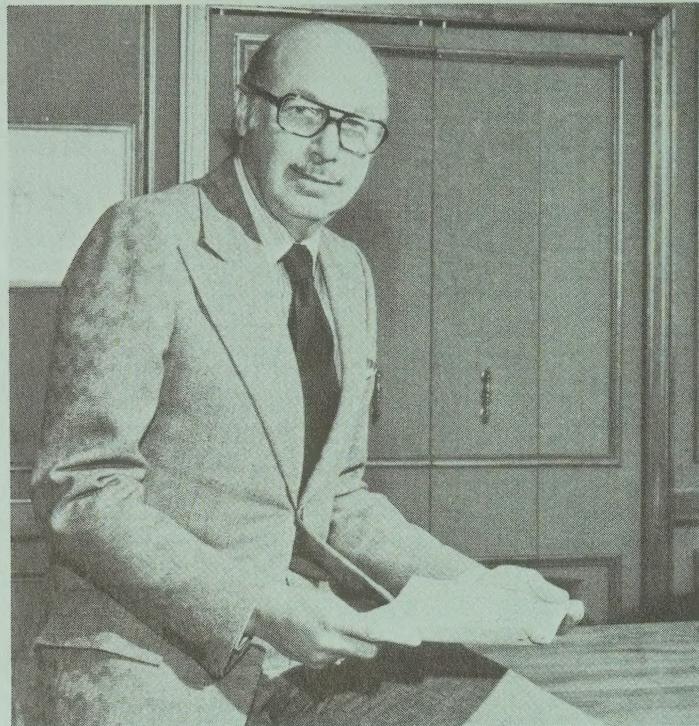
Exchange Listing

The Toronto Stock Exchange
 Ticker PNS

Head Office

PENNINGTON'S STORES LIMITED
 40 Samor Road
 Toronto, Ontario M6A 1J6
 Telephone: 787-4973

TO OUR SHAREHOLDERS



I am pleased to report that 1973 was another year of achievement for your Company. Total sales and net income both demonstrated substantial increases in a business climate that was characterized by spiralling prices and rising interest rates. The inflation problem was particularly burdensome during the latter part of the year and together with the national rail strike last August, affected our operating results in the second half. The disruption in the transportation system resulted in late shipments of fall merchandise. Furthermore, delays in store openings and adverse weather conditions also influenced sales results. The inflation problem remains a major consideration facing your Company in the current year.

Financial Results

In spite of the aforementioned problems, I am pleased to report that the total sales

of your Company for the year ended December 29th, 1973 increased 28.1% to \$15,216,000 and earnings before taxes increased 28.9% to \$3,008,000. A significant increase in the tax rate reduced the aftertax gain to 22.1%. Net profits were \$1,480,000 as compared with \$1,211,000 in 1972. Earnings per share, calculated on the weighted average number of shares outstanding during the year increased from 60.2¢ to 73.1¢. The operating results are after writing off the opening expenses of 11 new stores during the year.

The financial position of the Company was further strengthened in 1973. Net working capital rose from \$2,763,000 to \$2,948,000 while shareholder's equity improved from \$4,851,000 to \$5,680,000, which is equal to \$2.80 per share. Year end inventories were 48.2% higher than at the same time in the previous year. Your management took a decision early in the year to build up inventory of basic merchandise which was difficult to get in view of continuous price increases and slow deliveries. We believe such a step was well justified and will continue to contribute to profits this year.

Store Development

Net capital expenditures last year amounted to \$875,000 and were principally used to fixture the new stores. A total of 11 units were opened in 1973, which raised the number in operation to 47 at year end. As most of the locations were opened in the second half, their major contribution to sales and earnings will take place this year. The store openings were in the following locations:

Eastgate Square Shopping Centre

Stoney Creek, Ontario
Bramalea City Centre
Bramalea, Ontario
Scarborough Town Centre
Scarborough, Ontario
Bayshore Shopping Centre
Ottawa, Ontario
Richmond Centre
Richmond, B.C.
Carrefour de L'Estrie
Sherbrooke, P.Q.
Mic-Mac Shopping Centre
Dartmouth, N.S.
Mississauga City Centre
Mississauga, Ontario
Station Mall
Sault Ste. Marie, Ontario
Georgian Mall
Barrie, Ontario
Tecumseh Mall
Windsor, Ontario

The most significant corporate development during the year was the move to the new 50,000 square foot Head Office and Warehouse in December, in close proximity to the old location. Your management team, in conjunction with outside consultants, have designed a distribution system capable of handling merchandise from receipt to shipment to our stores on a 24 to 48 hour basis, which can be expected to provide the Company with significant operating economies in future years. Included in the facility is a new "photo cell handling system" which distributes merchandise into pre-determined store collecting areas ready for packaging and shipment. The new premises have been fully operational since early in the year.

We expect to open a total of 12 new stores in 1974 which will include a third Pennington's Budget Store in Winnipeg, Manitoba. The following four locations are scheduled to open in the first half with the remaining 8 stores coming in the second six months:

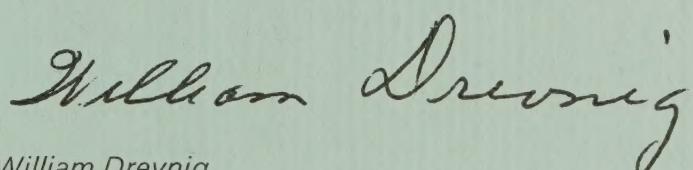
Laval, Quebec
Newmarket, Ontario
Quebec City, Quebec
Winnipeg, Manitoba (Budget Store)

Capital expenditures in 1974 are estimated at \$900,000 and will be provided from present Company finances and internal cash flow.

Dividends

During the year, your Company paid four quarterly tax-paid dividends of 7 cents per share. In view of the 1973 profit performance, your Board of Directors has declared an increase in the first quarterly dividend to 8 cents per share. If maintained, this raises the annual dividend rate by 14.3% to 32 cents per share and is the fourth consecutive year that dividends have been increased. It is also anticipated that the dividends in the current year will be on a tax-paid basis.

On behalf of your Board of Directors and Senior Management, I take this opportunity to express our appreciation to all our employees and suppliers whose co-operation and efforts contributed greatly to the year's results.



William Drevnig
President.

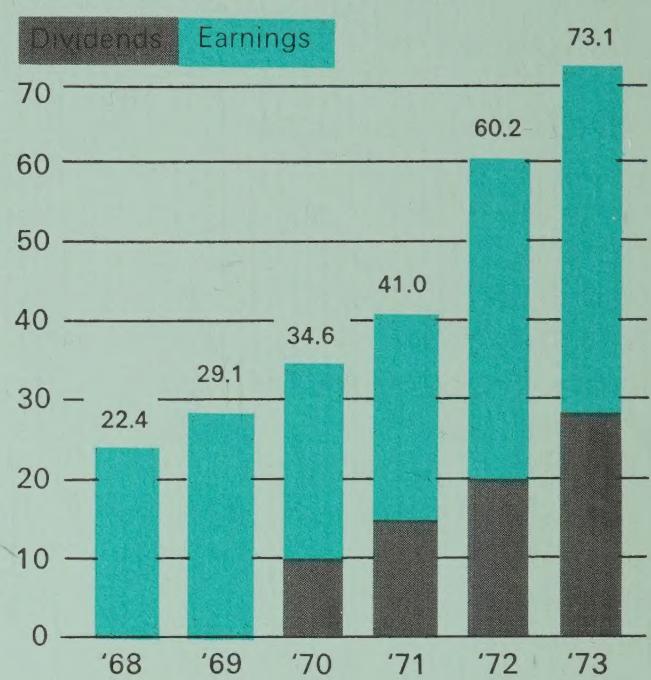
GROWTH OF SALES

in millions



GROWTH OF EARNINGS PER SHARE

Dividends Earnings



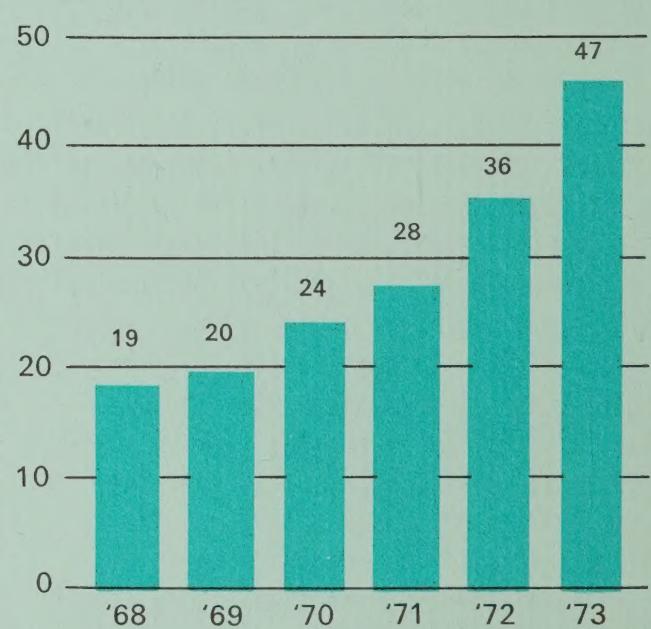
GROWTH IN NET INCOME

in millions



GROWTH IN NUMBER OF STORES

units in operation at end of year



STATEMENT OF INCOME

year ended December 29, 1973

	1973	1972
Sales	<u>\$15,215,566</u>	<u>\$11,879,984</u>
Cost of sales, selling and administrative expenses	<u>12,022,954</u>	<u>9,421,474</u>
Depreciation	<u>184,675</u>	<u>125,774</u>
	<u>12,207,629</u>	<u>9,547,248</u>
Income before taxes	<u>3,007,937</u>	<u>2,332,736</u>
Income taxes (Note 5)	<u>1,528,000</u>	<u>1,121,500</u>
Net income	<u><u>\$ 1,479,937</u></u>	<u><u>\$ 1,211,236</u></u>
Earnings per share (Note 7)	<u><u>73.1¢</u></u>	<u><u>60.2¢</u></u>

STATEMENT OF RETAINED EARNINGS

year ended December 29, 1973

	1973	1972
Retained earnings, beginning of year	<u>\$3,478,002</u>	<u>\$2,707,126</u>
Net income for year	<u>1,479,937</u>	<u>1,211,236</u>
	<u>4,957,939</u>	<u>3,918,362</u>
Dividends (Note 6)	<u>566,902</u>	<u>404,360</u>
15% tax paid on portion of undistributed income	<u>99,750</u>	<u>36,000</u>
	<u>666,652</u>	<u>440,360</u>
Retained earnings, end of year	<u><u>\$4,291,287</u></u>	<u><u>\$3,478,002</u></u>

PENNINGTON'S STORES LIMITED

BALANCE SHEET

as at December 29, 1973

ASSETS	1973	1972
Current:		
Cash	\$ 537,077	\$ 494,495
Short term notes receivable	200,000	1,107,000
Accounts receivable, less allowance for doubtful accounts	566,380	354,826
Inventories at net realizable value less normal profit margin	3,573,542	2,411,479
Prepaid expenses and sundry assets	47,558	31,930
	<u>4,924,557</u>	<u>4,399,730</u>
Loan to employee (Note 2)	86,300	90,500
Fixed, at cost:		
Furniture, fixtures and leasehold improvements	2,528,248	1,703,088
Motor vehicles	39,888	35,280
	<u>2,568,136</u>	<u>1,738,368</u>
Less accumulated depreciation	764,996	625,680
	<u>1,803,140</u>	<u>1,112,688</u>
Excess of cost over book value of business acquired	947,089	947,089
	<u>\$7,761,086</u>	<u>\$6,550,007</u>

LIABILITIES	1973	1972
Current:		
Accounts payable and accrued liabilities	\$1,221,252	\$1,181,548
Income taxes payable	426,285	308,209
Other taxes payable	186,855	147,054
Dividend payable	141,778	—
	<u>1,976,170</u>	<u>1,636,811</u>
Deferred income taxes (Note 5)	<u>105,091</u>	<u>62,294</u>

SHAREHOLDERS' EQUITY

Capital stock (Note 1) :

Authorized :

6,000,000 Common shares without par value

Issued :

2,025,400 Shares (1972 – 2,021,800 shares)

Retained earnings

1,388,538

4,291,287

5,679,825

\$7,761,086

1,372,900

3,478,002

4,850,902

\$6,550,007

On behalf of the Board :

(Director)

(Director)

William Pennington

S. Amel

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

year ended December 29, 1973

	1973	1972
Source of funds :		
Operations:		
Net income for year	\$1,479,937	\$1,211,236
Expenses not requiring current outlay of funds:		
Depreciation and amortization	184,675	125,774
Deferred income taxes	42,797	20,236
Total funds provided from operations	<u>1,707,409</u>	<u>1,357,246</u>
Issue of shares	15,638	99,900
Repayments received on loan to employee	4,200	—
	<u>1,727,247</u>	<u>1,457,146</u>
Application of funds :		
Purchase of fixed assets	875,127	506,554
Dividends (Note 6)	566,902	404,360
15% tax paid on portion of undistributed income	99,750	36,000
Loan to employee, less repayments	—	90,500
	<u>1,541,779</u>	<u>1,037,414</u>
Increase in working capital	185,468	419,732
Working capital at beginning of year	<u>2,762,919</u>	<u>2,343,187</u>
Working capital at end of year	<u>\$2,948,387</u>	<u>\$2,762,919</u>

AUDITORS' REPORT

To the Shareholders of
Pennington's Stores Limited

We have examined the balance sheet of Pennington's Stores Limited as at December 29, 1973 and the statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 29, 1973, and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Laventhal Krekstein Horwath & Horwath
Chartered Accountants.*

*Toronto, Ontario
March 15, 1974.*

PENNINGTON'S STORES LIMITED

NOTES TO FINANCIAL STATEMENTS

December 29, 1973

1. Capital stock :

During the year 3,600 shares were issued pursuant to the company's employees' stock option plan for cash consideration of \$15,638.

After giving effect to the exercise of the options noted above, 45,700 shares remain reserved for issue under the stock option plan. As at December 29, 1973, the following options were outstanding :

	Number of Shares
Options at \$3 per share, expiring March 15, 1974, which were exercised before expiry	1,600
Options at \$4.6125 per share, expiring April 18, 1976	2,000
Options at \$9.90 per share, expiring November 14, 1978	2,500
	<hr/> <u>6,100</u>

2. Loan to employee :

In 1972 the company loaned to a senior employee \$94,500 without interest and the loan proceeds were used for the subscription of 20,000 shares of the company's capital stock. The loan is to be outstanding during his employment, but, in any event, to be repaid by October 31, 1976, and is secured by a pledge of the shares. As of December 29, 1973, \$8,200 had been repaid.

3. Long term leases :

Long-term leases entered into by the company for the rental of store locations and warehouse facilities extend into the year 1989. The company has also entered into lease commitments for 11 new store locations. The majority of the store leases provided for payment to the lessor of a percentage of sales. Minimum annual rentals payable during 1974 and estimated percentage rent payable where leases do not

provide for minimum rents (exclusive of taxes and other occupancy charges) will aggregate approximately \$1,240,000.

4. Remuneration of directors and senior officers :

Direct remuneration paid to directors and senior officers of the company (as defined by The Business Corporation Act of Ontario) amounted to \$205,200; 1972 - \$206,800.

5. Income taxes :

The company follows the allocation method of reporting taxes on income. Under this method, recognition is given in the accounts to the tax effects of the annual difference between reported income and taxable income which results from the company claiming for income tax purposes depreciation in excess of amounts reported in the accounts.

6. Retained earnings :

Retained earnings at December 29, 1973 includes \$1,759,000 of 1971 undistributed income on hand as defined by the Canadian Income Tax Act. This tax surplus can be distributed tax free to the shareholders after payment by the company of a 15% tax thereon. 1971 capital surplus of \$2,471 also included in retained earnings can be distributed tax free only after all the required tax has been paid on the 1971 undistributed income.

During the year the company converted \$665,000 of 1971 undistributed income into tax paid undistributed surplus by the payment of a 15% tax of \$99,750 and distributed \$566,902 to the shareholders by way of tax free dividends.

7. Earnings per share :

Earnings per share are based on the weighted average number of shares outstanding during the year.

These photos illustrate various parts of our new distribution facility. This new expanded warehouse enables us to handle the receipt and re-distribution of merchandise to our stores on a 24 to 48 hour basis.





STORE LOCATIONS

497 Danforth Avenue Toronto, Ontario	Southgate Shopping Centre Edmonton, Alberta	Mic-Mac Shopping Centre Dartmouth, N.S.
2850 Dundas St. W. Toronto, Ontario	Fairview Mall Willowdale, Ontario	Mississauga City Centre Mississauga, Ontario
231 Yonge Street Toronto, Ontario	Garden City Shopping Centre West Kildonan, Manitoba	Station Mall Sault Ste. Marie, Ontario
Lawrence Plaza Toronto, Ontario	Sherway Gardens Etobicoke, Ontario	Georgian Mall Barrie, Ontario
Rexdale Plaza Rexdale, Ontario	City Centre Sudbury, Ontario	Tecumseh Mall, Windsor, Ontario
Shopper's World Plaza 3003 Danforth Ave. Toronto, Ontario	Centre D'Achat Les Rivières Trois Rivières, P.Q.	Le Carrefour Laval Laval, Quebec
Yorkdale Shopping Centre Toronto, Ontario	Quinte Mall Belleville, Ontario	Place Quebec Quebec City, Quebec (opening Spring 1974)
The Centre Hamilton, Ontario	Brentwood Mall Burnaby, B.C.	215 McDermot Avenue Winnipeg, Manitoba (opening Spring 1974)
Polo Park Shopping Centre Winnipeg, Manitoba	Surrey Place Surrey, B.C.	Upper Canada Mall Newmarket, Ontario
Place Laurier Ste. Foy, P.Q.	Orchard Park Shopping Centre Kelowna, B.C.	Lynden Park Mall Brantford, Ontario (opening Fall 1974)
Place Ville Marie Montreal P.Q.	Londonderry Mall Edmonton, Alberta	Park Street Plaza Thunder Bay, Ontario (opening 1974)
Dorval Gardens Shopping Centre Dorval, P.Q.	Centre Laval Laval, Quebec	Devonshire Mall Windsor, Ontario (opening 1974)
St. Laurent Shopping Centre Ottawa, Ontario	Alexis Nihon Plaza Montreal, Quebec	Champlain Place Moncton, N.B. (opening 1974)
Shopper's Park — Westmount Edmonton, Alberta	Les Galeries Hull Hull, Quebec	Market Square Kitchener, Ontario (opening 1974)
Les Galeries D'Anjou Ville D'Anjou, P.Q.	3711 Keele Street Downsview, Ontario	Pacific Centre Vancouver, B.C. (opening 1974)
Halifax Shopping Centre Halifax, Nova Scotia	Eastgate Square Shopping Centre Stoney Creek, Ontario	Burlington Mall Burlington, Ontario (opening 1974)
Chinook Ridge Shopping Centre Calgary, Alberta	Bramalea City Centre Bramalea, Ontario	Prince George, B.C. (opening 1974)
Wellington Square Centre London, Ontario	Scarborough Town Centre Scarborough, Ontario	
Hillside Shopping Centre Victoria, B.C.	Bayshore Shopping Centre Ottawa, Ontario	
Midtown Plaza Saskatoon, Sask.	Richmond Centre Richmond, B.C.	
Park Royal Shopping Centre West Vancouver, B.C.	Carrefour De L'Estrie Sherbrooke, Quebec	

(ad copy)

Pennington's

STORES LIMITED

INTERIM REPORT

for 26 weeks ended
June 30, 1973

To The Shareholders

We are pleased to report the interim financial results for the six months ended June 30th, 1973. Total sales were \$6,673,000 which represents an increase of 39.1% over 1972. Unaudited net earnings during this period improved from \$413,000 to \$573,000, which amounts to an increase of 38.7%. Earnings per share were 28.3¢ as compared with 20.6¢ for the same period of 1972.

A new store was opened in the Bayshore Shopping Centre, Ottawa, Ontario on August 8th which brings to four the total number of stores opened to date this year. We expect to open an additional five locations before the end of the current year.

Your Board of Directors expects to declare a third quarterly dividend of seven cents per share (tax paid) payable on September 28th, 1973 to shareholders of record at the close of business on September 15th, 1973.

Your management anticipates a further improvement in sales and earnings for the balance of 1973.

William Drevnig

August, 1973

President

PENNINGTON'S STORES LIMITED

Statement of Income

(UNAUDITED) FOR TWENTY-SIX (26) WEEKS
ENDED JUNE 30, 1973

	June 30, 1973	July 1, 1972
SALES	<u>\$6,673,000</u>	<u>\$4,796,000</u>
COST OF SALES, SELLING & ADMINISTRATIVE EXPENSES	5,426,000	3,945,000
Depreciation	81,000	55,000
	<u>5,507,000</u>	<u>4,000,000</u>
INCOME BEFORE TAXES	1,166,000	796,000
INCOME TAXES	593,000	383,000
NET INCOME	<u>\$ 573,000</u>	<u>\$ 413,000</u>
EARNINGS PER SHARE*	<u>28.3¢</u>	<u>20.6¢</u>
SHARES OUTSTANDING AT END OF PERIOD	<u>2,024,400</u>	<u>2,021,800</u>

*Computed on the average
number of shares outstanding
during the period.

**Statement of Source and
Application of Funds**

(UNAUDITED) FOR TWENTY-SIX (26) WEEKS
ENDED JUNE 30, 1973

SOURCE OF FUNDS

Operations		
Net Income for the Period	\$ 573,000	\$ 413,000
Expenses not requiring current outlay of funds:		
Depreciation	81,000	55,000
Deferred income taxes	3,000	5,000
Total funds from operations	<u>657,000</u>	<u>473,000</u>
Issue of shares	<u>11,000</u>	<u>100,000</u>
	<u>668,000</u>	<u>573,000</u>

APPLICATION OF FUNDS

Purchase of Fixed Assets	243,000	220,000
Dividends	283,000	202,000
15% tax paid on portion of undistributed income	51,000	—
Loan to employee	—	121,000
	<u>577,000</u>	<u>543,000</u>
INCREASE IN WORKING CAPITAL	<u>\$ 91,000</u>	<u>\$ 30,000</u>

AR13

BOARD OF DIRECTORS

Sol Armel
Donald Carr, Q.C.
William Drevnig
Albert Sherman
Jack Sherman
Mark Vansittart

OFFICERS

William Drevnig – *President*
Albert Sherman – *Vice-President and Secretary*
Sol Armel – *Vice-President and Treasurer*
Jack Sherman – *Vice-President*

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company

AUDITORS

Laventhal Krekstein Horwath & Horwath

LISTED

The Toronto Stock Exchange
Ticker: PNS

HEAD OFFICE

PENNINGTON'S STORES LIMITED
17 Apex Road
Toronto Ontario, M6A 2V6
Telephone: 787-4973



**PRELIMINARY REPORT
TO THE SHAREHOLDERS**

For the year ended
December 29, 1973

1972

R 208,000

R/S .60
S 11,880,000

Concise

Preliminary Report to the Shareholders

We are pleased to report the following unaudited financial results for the year ended December 29th, 1973. The total sales of your Company for this period were \$15,215,000, which represents an increase of 28.1% over fiscal 1972. Unaudited earnings in 1973, after full provision for income taxes, increased 22.1% to \$1,478,000. Earnings per share, calculated on the weighted average number of shares outstanding during the year amounted to approximately 73¢ as compared with 60¢ in 1972. The operating results are after writing off the opening expenses of 11 new stores during the year.

I am pleased to announce that your Board of Directors has declared an increase in the quarterly dividend to 8 cents per share. This increases the indicated annual dividend rate by 14.3% to 32 cents per share. The first quarter 1974 tax free dividend payment of 8 cents per share will be made on March 29th to shareholders of record on March 18th.

To date, we have negotiated leases for 11 new locations to be opened this year. However, construction delays could defer some of these openings.

The Company's annual report for 1973 and the audited financial statements providing complete details of the year's operations are expected to be mailed in May.

William Drevnig
President

March, 1974

AR13

BOARD OF DIRECTORS

Sol Armel
Donald Carr, Q.C.
William Drevnig
Albert Sherman
Jack Sherman
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OFFICERS

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